

2019 ANNUAL TOWN MEETING

REPORT OF THE FINANCE COMMITTEE

The Finance Committee is composed of nine Weston residents appointed by the Town Moderator to advise the Selectmen and the Town on financial matters and other questions coming before the Town or affecting the interests of the Town. In turn, we make recommendations to the voters regarding such matters. During the course of the year, we engage in the following activities:

- Participate in financial meetings with the Selectmen, Town Manager, School Committee and School Administration.
- Meet with individual town departments as budgets are developed.
- Form small, ad hoc, working groups within the Committee to discuss current financial trends and topics affecting the Town and make recommendations.
- Provide recommendations, where appropriate, to residents on Town Warrant Articles.
- Monitor debt levels and the long-term fiscal health outlook for the Town.
- Hold regular public meetings to discuss findings of detailed budget reviews and other significant issues affecting the Town.

Recommendation

We support the Fiscal Year 2020 operating and cash capital budgets as presented in the Warrant, which are further discussed in the Report of the Board of Selectmen. However, we remain very concerned about the school budget, which is much higher than neighboring comparable towns on a per pupil basis and has been increasing even in light of decreasing enrollment. We are also becoming concerned about the number, size, and frequency of special projects requiring debt funding that are excluded from Proposition 2 ½ limits, all of which will further increase Weston's highest-in- Massachusetts property tax burden for many years.

Our support this year is based on the budget's consistency with the following principles:

- Maintain current levels of services efficiently and cost effectively, while prudently addressing increased demand for services in some areas.
- Provide sufficient funds for building and other infrastructure maintenance to ensure that capital facilities and equipment are properly maintained.
- Enhance fiscal stability by funding long term liabilities and providing adequate reserves for unforeseen circumstances.
- Ensure that budgets and capital projects can be supported by the Town's tax base and other revenue sources without jeopardizing the Town's credit rating, ability to service its debt, or the long-term health of the Town.

The total Fiscal Year 2020 budget, including operating expenses, cash capital, Other Post-Employment Benefits (OPEB), and debt service totals \$94.0 million, which is an increase of \$3.7 million or 4.1% over the FY19 grand total budget. When debt service (that Weston voters have specifically exempted from the limits of Proposition 2½) is not included, the total operating, cash capital and OPEB budgets are \$84.4 million, an increase of \$2.8 million or 3.4% over the FY19 sub-total.

We recommend that in the coming year, the Town explore new and significant opportunities to enhance long term fiscal health and financial flexibility by seeking new measures of relative cost and municipal service performance, and by developing new analytic tools for evaluating various projects and spending plans. Specifically, we believe the Town should:

- Establish baseline measures of success for all Town departments, especially for the Schools Police and Fire and Departments and the Department of Public Works, so that Townspeople can easily track service performance and costs over time, compared to the same metrics in neighboring comparable towns and other objective measurable standards.

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- Develop and implement a long-range financial planning model, so that we are all better able to analyze the financial implications and tradeoffs associated with various policies, commitments and large special projects over time.

Estimated Taxes

87% of the revenues required to fund this budget and excluded debt service will be raised through the property tax levy. New growth in the tax levy (the increase from new construction) for FY19 was \$1.4 million and is estimated at \$0.6 million for FY20. This means the median assessed home value of \$1,187,400 is projected to see a real estate tax bill increase of \$756 from \$15,360 in FY19 to \$16,116 in FY20, or 4.9%.

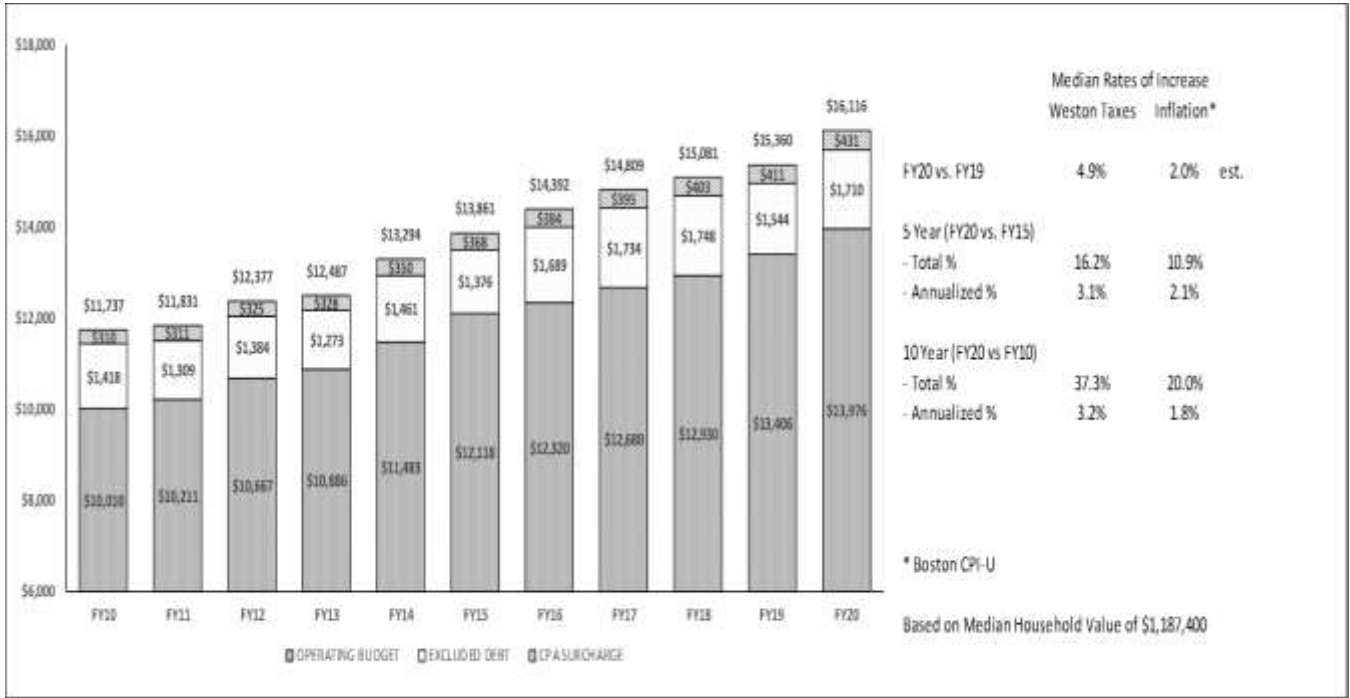
FY20- FY24 Estimated Median Tax Bill

	<u>FY20</u>	<u>FY21</u>	<u>FY22</u>	<u>FY23</u>	<u>FY24</u>
<u>ESTIMATED MEDIAN TAX BILL*:</u>					
OPERATING EXPENSE	\$13,976	\$14,402	\$14,851	\$15,309	\$15,778
EXCLUDED DEBT EXPENSE:					
OUTSTANDING	\$1,627	\$1,507	\$1,370	\$1,279	\$1,210
AUTHORIZED/UNISSUED	\$47	\$193	\$183	\$186	\$176
NEW CAPITAL:					
TOWN CENTER MASTER PLAN	\$24	\$72	\$257	\$248	\$252
TOWN CENTER-BURY UTILITIES	12	48	159	161	164
FIRE RADIO EQUIPMENT	0	0	49	50	38
FIRE ENGINE PUMPER	0	0	0	0	50
CHERRY BROOK CULVERTS	0	0	24	37	38
SURFACE DRAINS	0	0	24	50	63
TOTAL NEW CAPITAL	\$36	\$121	\$514	\$546	\$605
TOTAL EXCLUDED DEBT EXPENSE	\$1,710	\$1,820	\$2,067	\$2,011	\$1,991
CPA SURCHARGE**	\$431	\$446	\$466	\$478	\$491
TOTAL ESTIMATED MEDIAN TAX BILL	\$16,116	\$16,668	\$17,384	\$17,798	\$18,260
TOTAL AVERAGE TAX BILL	\$21,323	\$22,053	\$23,000	\$23,548	\$24,159
MEDIAN HOUSEHOLD VALUE	\$1,187,400	\$1,205,211	\$1,223,289	\$1,241,639	\$1,260,263
AVERAGE HOUSEHOLD VALUE	\$1,571,000	\$1,594,565	\$1,618,483	\$1,642,761	\$1,667,402
* ASSUMES BUDGET INCREASE OF 3.0% , REVENUE INCREASE OF 2.5% AND PROPERTY VALUE INCREASE OF 1.50% IN EACH YEAR					
** DEBT SERVICE FOR CPA PROJECTS IS FUNDED BY CPA SURCHARGE, JOSIAH SMITH TAVERN IS A POTENTIAL UPCOMING PROJECT CURRENTLY ESTIMATED AT \$13 MILLION (\$9 MILLION OF THIS AMOUNT IS POTENTIALLY DEBT SERVICE)					

This 4.9% increase projected for Fiscal Year 2020 well exceeds the rate of inflation expected over the next few years (according to bond market indicators and economists' projections). It is also nearly two percentage points higher than the trends in Weston taxes over the last 5 and 10 years. While an annual tax growth of 1-2% above the rate of inflation is not overwhelming in any one year, these repeated annual increases compound into a significant difference over time.

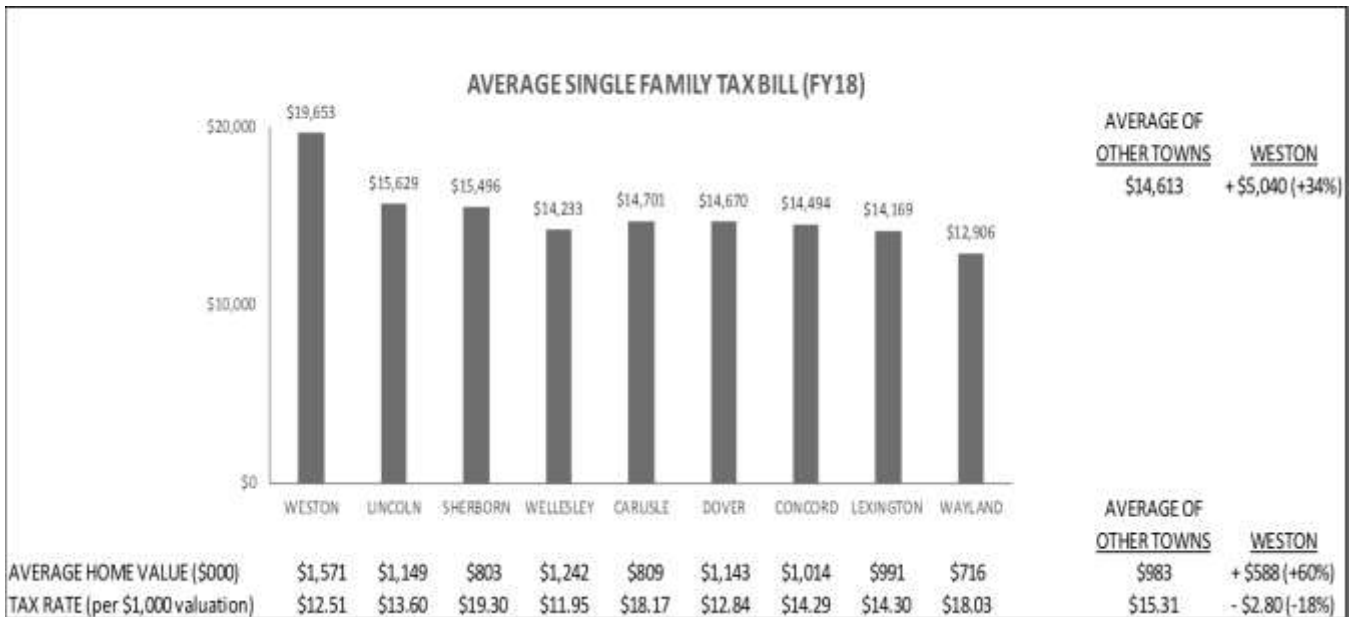
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Median Tax Bill Increase since FY10



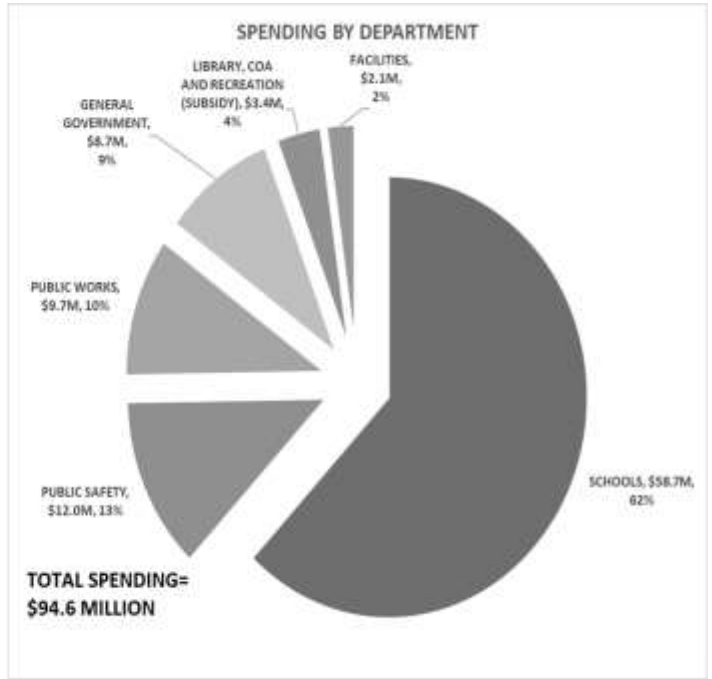
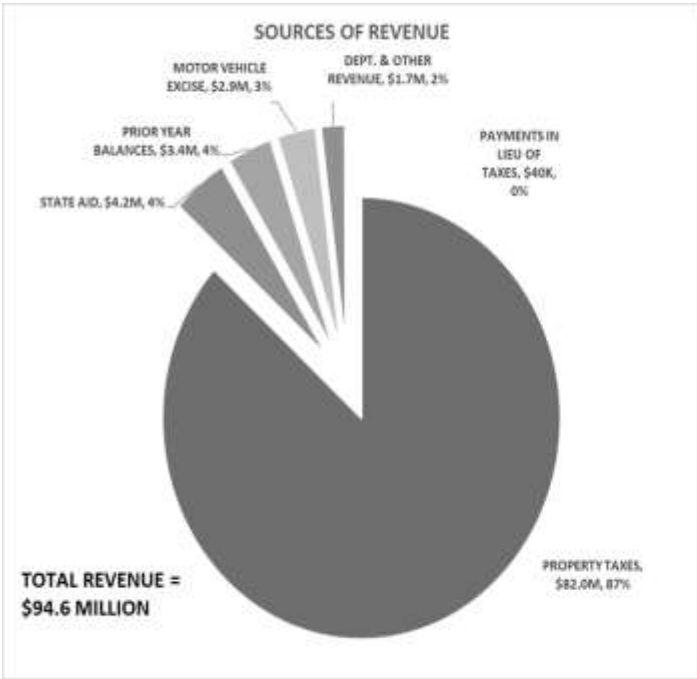
Weston has the highest taxes in Massachusetts. Weston’s average single family tax bill in FY18 of \$19,653 is \$5,040 (34%) higher than the \$14,613 average of our comparable communities (which are the next eight highest tax towns in the state). While all towns are different in some ways and the costs of some municipal services reflect these differences, many of the largest costs - such as the cost of paving a mile of road, providing fire protection for a certain number of homes, or educating a child to a high standard - should be roughly the same across similar affluent towns.

Weston’s Taxes Higher Than Comparable Towns



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Revenue and Expense Summary



Weston derives essentially all of its revenue from the property taxes on our single-family homes (95% of tax base), as there is negligible commercial and industrial real estate in town. In FY20 Weston is expected to receive an increase of 2.7% in State Aid which projected to comprise 5.0% of the revenue for FY20. Local receipts make up another 6.7% (Motor Vehicle Excise being the largest local receipt at \$2.9 million).

On the expense side, nearly two thirds of spending is for Schools, including the cost of employee benefits and debt service on capital projects. Essential services (Public Safety, Department of Public Works and Facilities) which also include the cost of employee benefits and debt service on capital projects, make up another 25%. The remainder of expenses represents Town government and services that are important to the quality of life of residents, such as the Public Library and Council on Aging. Exempt debt service is increasing from \$8.7 million to \$9.6 million and now comprises 10.2% of the overall budget.

Operating Budget Summary

The overall operating budget – excluding debt service, employees’ benefits, and funding of long term OPEB liabilities - is projected to increase by \$3.5 million (4.4%).

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	FY19 Budget	Recommended FY20 Budget	\$ Change	% Change
Operating Budget:				
Schools	40,099,468	41,441,391	1,341,923	3.3%
Town Government, Facilities, Public Safety & Public Works	20,944,592	22,609,107	1,664,515	7.9%
Employee Benefits & Other Fixed Costs	<u>17,662,275</u>	<u>18,123,585</u>	<u>461,310</u>	<u>2.6%</u>
Total Operating Budget	78,706,335	82,174,083	3,467,748	4.4%
Non Operating Budget:				
Cash Capital	760,000	-	(760,000)	-100.0%
Pre-Funding Long Term OPEB Liability	2,121,634	2,214,656	93,022	4.4%
Gross Debt Service Exempt from Proposition 2 1/2	<u>8,741,482</u>	<u>9,624,481</u>	<u>882,999</u>	<u>10.1%</u>
Total Non Operating Budget	11,623,116	11,839,137	216,021	1.9%
Grand Total Budget	90,329,451	94,013,220	3,683,769	4.1%

Newly recommended increases that contribute to the 7.9% increase for General Government includes the supplemental roadway construction voted by the Selectmen as part of their multi- year plan to restore all of Weston roads to a basic 70% quality rating, along with the added DPW Deputy Director needed to manage that and other special projects:

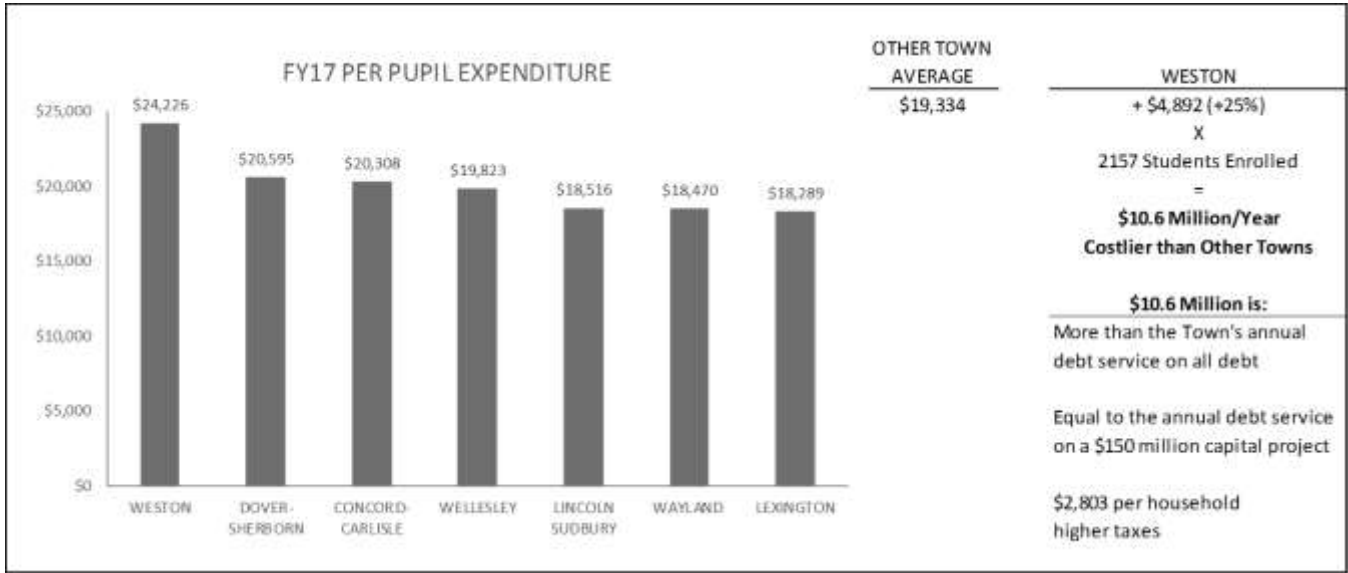
Construction of Public Ways	\$ 500,000
DPW Deputy Director (incl. benefits)	145,014
DPW- Stormwater Engineering Compliance	47,500
Info Systems Network Manager (incl. benefits)	37,090
Police School Resource Officer (incl. benefits)	16,209
Council on Aging- Part Time Office Assistant	5,000
Board of Health- Additional Nurse Hours	<u>4,550</u>
Total New Recommended Increases (Town)	<u>\$ 755,363</u>

Schools

Weston has a longstanding tradition of supporting excellence in public education, and our schools are among the most highly rated in the Boston area. However, we are concerned by the rate of growth of the School budget in recent years despite continued and projected future declining enrollment. In FY20, this budget is rising by \$1,341,923 or 3.3% even though enrollment is projected to decline by 2.0% in FY20, with a 6.8% decline at the High School and a projected total enrollment decline of 9.2% over the next five years. We have much higher per pupil expenditures than those of neighboring comparable school districts, despite performance metrics which are not materially different from other comparable towns.

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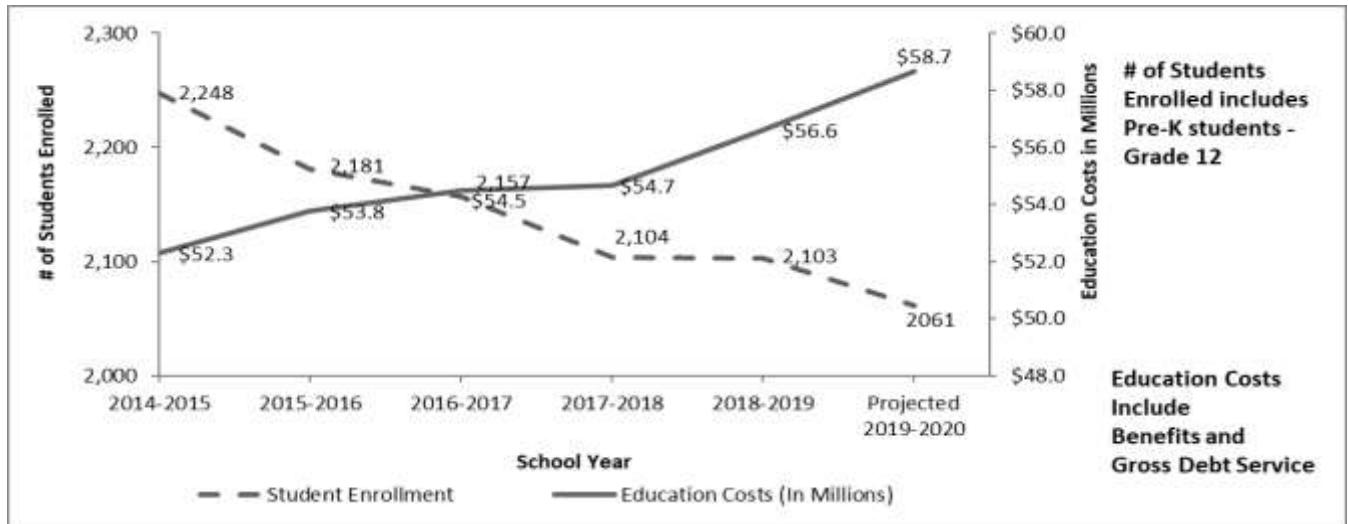
Weston School Costs Higher Than Comparable Towns (FY17)



In the coming year, the Finance Committee will continue working in collaboration with the School Committee to analyze in detail these apparently higher costs versus peer districts, and together explore possible areas of cost control, efficiencies, and savings that would not sacrifice excellence.

The graph below illustrates how the total cost of Education including related debt and benefits are rising despite a significant drop in enrollment and projected further declines in enrollment.

Rising Cost of Education in Contrast to Declining Student Enrollment



Town Government

This part of the budget includes Public Safety, Public Works, the Library, Council on Aging, and Town Hall departments as well as the health insurance costs for all employees including the School Department and the retirement costs for all employees except teachers. The Town budget is increasing by \$2,125,825 or 5.5%.

The largest contributors to the increase are: Municipal Salaries (\$1,400,000), Road Maintenance (\$500,000), and Retirement (\$173,000). The increase for road maintenance recognizes the fact that the current level of funding is not sufficient, since between State funds and the Town budget, Weston has been funding less than

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what is needed to keep the roads in reasonable condition. Future budget increases in this area are also likely to be recommended.

Healthcare Costs

All Town and School employees belong to health insurance plans provided by the Massachusetts Group Insurance Commission (GIC). Last year's health insurance cost decreased by 2.1% and FY20 is increasing by 2.6%. While recent year-to-year cost increases have not been unreasonable, we note that Weston's employee benefits are significantly more costly than those in neighboring communities - an issue requiring some further research and perhaps reconsideration as we approach the mid-2021 renewal date of the current healthcare insurance contract.

Pension and Retiree Healthcare Costs

Like all municipalities, Weston has significant pension and retiree health insurance liabilities. (The latter are called Other Post Employment Benefits, or "OPEB.")

As of June 30, 2018, the Town's pension liability was underfunded by \$61.4 million. Massachusetts law recently extended the timeframe by which municipal pension plans must be fully funded. The Middlesex Retirement System, of which the Town is a part, has adopted a funding schedule that will provide for full amortization of the unfunded liability by 2035. The Town must pay annual assessments to Middlesex Retirement System to fulfill this obligation. The FY20 assessment is \$5.3 million.

With respect to OPEB, the Town currently pays for employee and retiree healthcare costs each year through the operating budget as they come due. The Town also prefunds future health care costs for current employees, as well as partially prefunding health care costs for current and prior employees (that had not been reserved for in the past) in the OPEB trust fund. As of June 30, 2018, the unfunded OPEB liability was \$66.5 million. Unlike the pension liability, no law requires funding the OPEB liability. Nevertheless, the Selectmen and Finance Committee believe it is prudent and responsible to fund this liability over time, rather than leaving it solely as a burden to future taxpayers. This year we recommend an additional contribution of \$2.2 million to the OPEB reserve. As of January 31, 2019, the OPEB reserve balance was approximately \$18.2 million.

Capital Spending, Debt Levels, and Credit Rating

Since 1997 the Town has authorized a number of large capital projects totaling nearly \$197 million. This includes major renovations of the schools, construction of the new Field School, Community Center, DPW and Police Station, an addition to the Town Hall, Case Campus Improvements, Case Estates Land acquisition, Case House Rehabilitation and Town Center Master Plan and Burying of Utilities. Outstanding excluded debt against these projects (as well as a number of smaller projects), once fully bonded as projected in FY21, will reach approximately \$91 million (see the chart on the next page). Note that this debt is well above Weston's annual town operating budget.

We are concerned about the large number, size, and frequency of these various projects. Projects are encouraged by our practice of forming ad hoc long-term committees, which become committed to seeing them happen without regard to bigger picture trade-offs or costs. There is a tendency to analyze projects in isolation, and to focus on debt service when presenting projects to the Town (e.g. only \$200 per taxpayer per year for the next 20 years) rather than considering that the debt service costs of all of these various projects add up to a significant amount for years to come. The ongoing maintenance costs resulting from an individual project must also be weighed, as these may require the addition of permanent personnel and/or equipment. In addition to the annual tax impact, this debt can ultimately also affect real estate values. When a property is eventually sold, a buyer will be looking at the overall tax bill, which is by far the highest in the state, rather than a small amount per year associated with any one project.

We expect that total excluded debt service for FY20 will be \$9.6 million, with \$6.6 million representing principal payments. The Town opportunistically refinances the interest rate it pays on debt when appropriate and allowed by law. We also note that the Town benefits from very low interest rates, because of its Aaa bond

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rating and the current low interest rate borrowing climate. Future projects may need to be financed at higher interest rates.

If all FY20 projects pass at Town Meeting, the Town’s total outstanding excluded debt is estimated to be \$76 million as of June 30, 2019. For FY20, we anticipate an additional borrowing of \$11 million consisting of:

- \$5.5 million for the Town Center Master Project (1/2 of the amount authorized)
- \$3.6 million for the Burying of Utilities (1/2 of the amount authorized)
- \$0.6 million for drainage improvements
- \$0.5 million for culvert repairs and
- \$0.8 million for fire radio equipment

Actual and Projected Excluded Outstanding Debt – FY10 through FY21

Assumptions:

- Outstanding principal is paid down as scheduled
- Includes projects authorized & unissued from prior town meetings (Case House- \$7.8 million, Route 30 - \$0.9 million)
- Includes Town Center Master Plan and Burying of Utilities voted at March 2019 STM
- Includes FY20 Capital Projects being brought to May 2019 Annual Town Meeting (Drainage Improvements - \$0.6 million, Cherry Brook Culverts - \$0.5 million and Fire Radio Equipment - \$0.8 million)
- Does not include any possible or unforeseen future capital projects

FY10-FY21 Actual and Projected Outstanding Excluded Debt

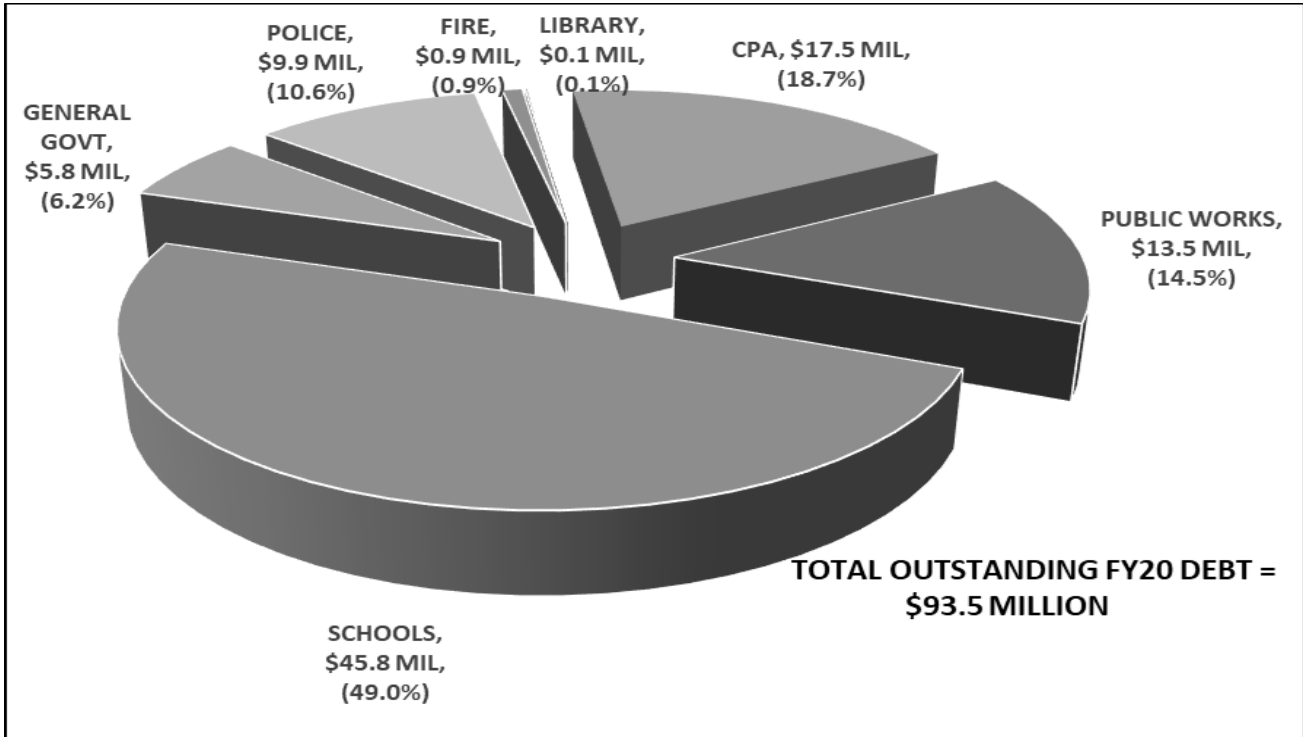


Projected Outstanding General and CPA Debt by Department – FY20

Assumptions:

- Includes all assumptions in previous chart
- Includes outstanding CPA debt funded by the CPA Surcharge
- Includes 500 Wellesley Street CPA Capital Project being brought to May 2019 Annual Town Meeting
- Includes FY20 CPA Capital Projects anticipated to be brought to future town meetings (e.g. \$9 Million Josiah Smith Tavern Construction to be potentially funded by borrowing)

FY20 Outstanding General & CPA Debt by Department



In FY2020, the Town’s ratio of debt service to operating revenue will be approximately 10.2% which is not expected to exceed the 15% threshold that is a guideline for a Aaa-rated municipality.

On two other key measures relevant to our credit rating, our ratios are favorable. Total outstanding debt represented only 1.50% of the Town’s total assessed valuation in FY19, well below the 5% General Debt Statutory Limit and the 10% considered a warning indicator by credit rating organizations. Total outstanding debt as a percent of per capita income was 3.15%, also well below a 15% threshold considered a warning indicator by credit rating organizations.¹

Reserves

Over the past 12 years, total reserves have grown from \$0.6 million in FY05 (when the reserve policy was created) to \$19.9 million as of 12/31/2018. We believe the Town is more than adequately reserved.

As previously discussed, the Town, along with most others in the country, has a significant unfunded OPEB liability. The majority of these costs are far in the future and will be significantly impacted by healthcare inflation, investment returns and possible changes in national healthcare policy. Although not required, starting in 2010, the Town began accumulating funds in a special trust that will allow us to achieve better returns on these investments. The OPEB Trust now stands at \$18.2 million and we expect to continue to make significant future contributions.

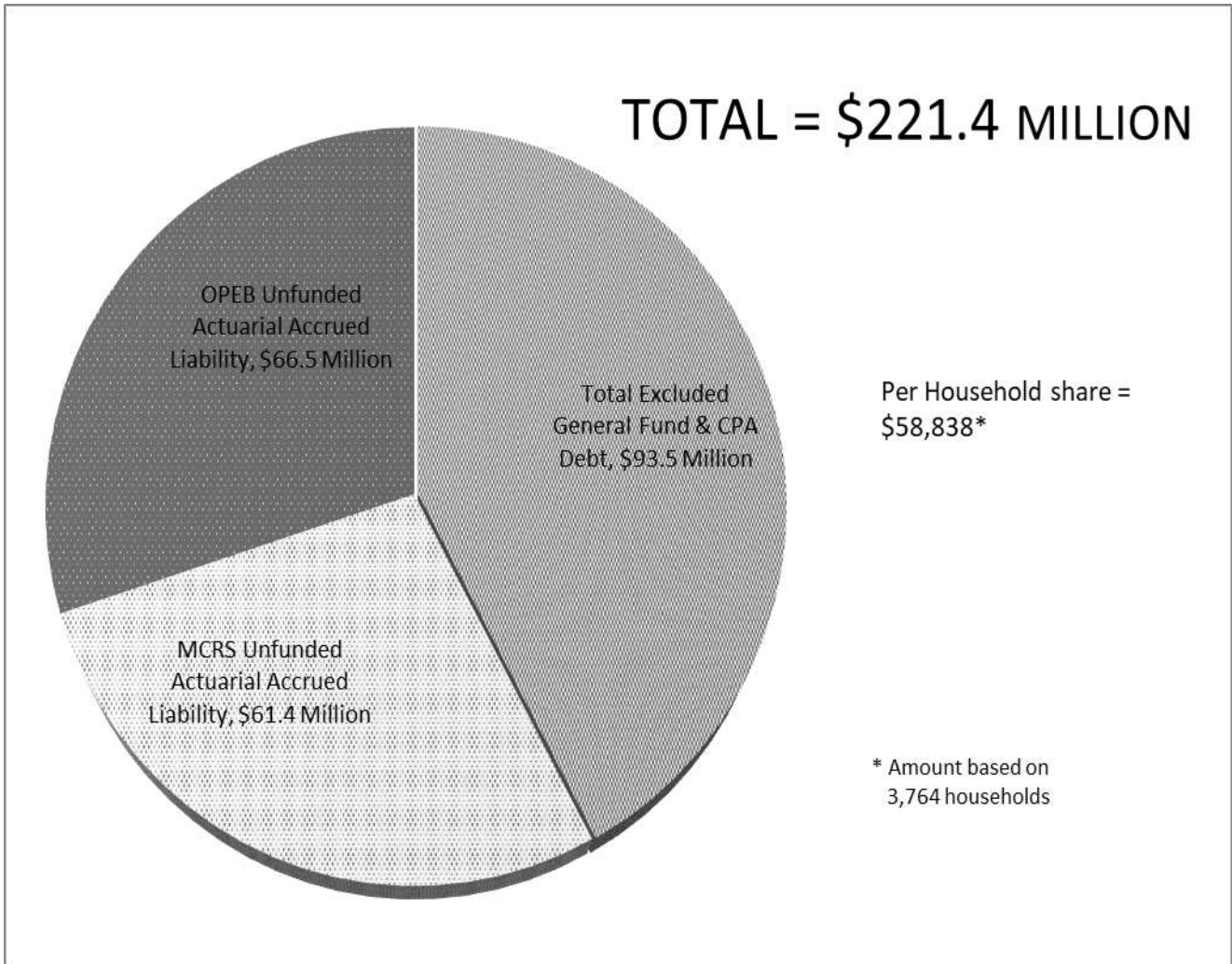
The Town continues to enjoy the highest credit rating on its debt (Aaa). We will continue to monitor the Town’s Reserve policy with an objective of maintaining it, so as to minimize the Town’s borrowing costs.

¹ The ratio of debt to household income is based upon the U.S. Census Bureau’s most recent five-year American Community Survey, conducted between 2010 and 2014, for Weston’s median household income of \$201,200.

Longer Term View

More than 80% of the Town's budget is related to personnel costs (School and Municipal), so controlling the growth of these costs directly results in controlling the growth of the budget. Long-term liabilities for pension and retiree healthcare continue to be significant. Outstanding debt is increasing as more large projects are added. Below is a chart of the Town's largest outstanding financial obligations as of June 30, 2019:

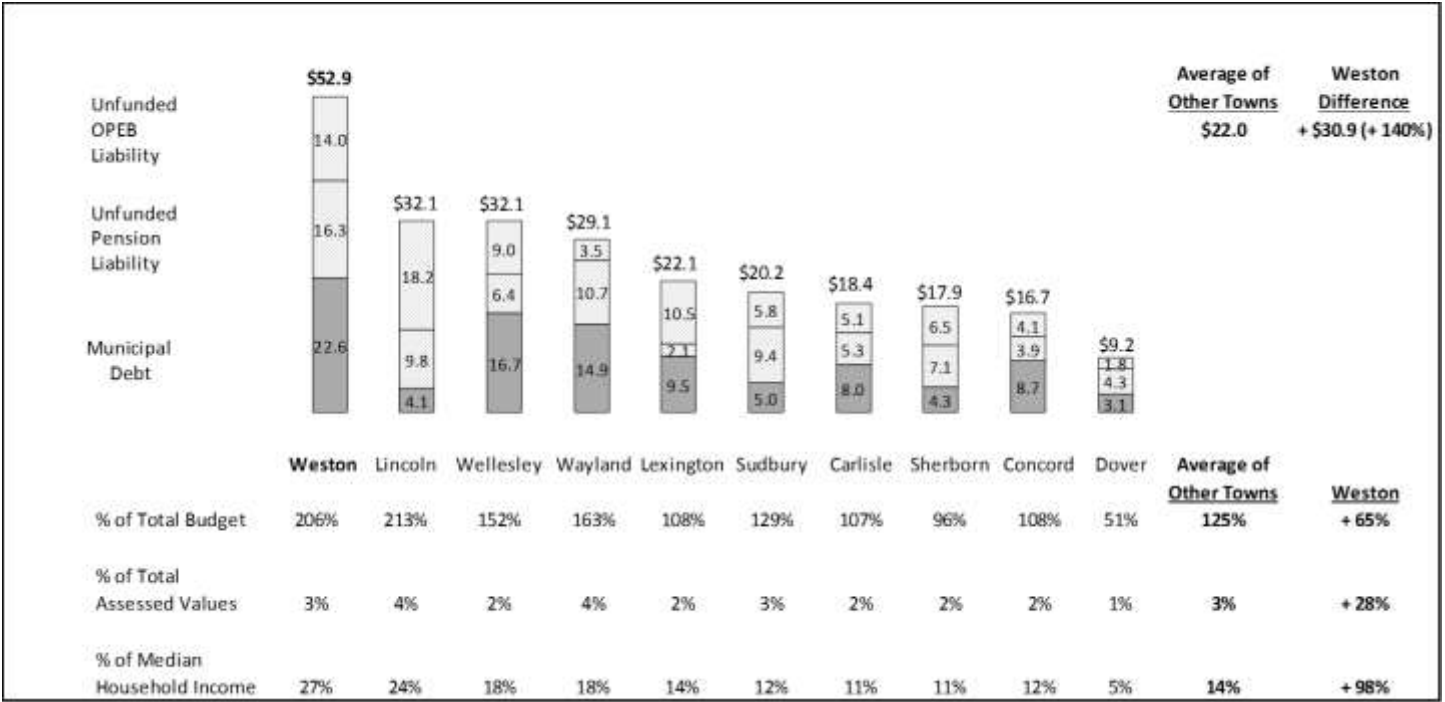
Long Term Financial Obligations as of June 30, 2019



This total level of debt and unfunded pension and retiree healthcare liabilities, now approaching a quarter of a billion dollars, is far higher than in comparable neighboring affluent towns on a per household basis. In FY17, Weston's total debt and unfunded liabilities totaled approximately \$52,900 per household, well over twice the comparable average of about \$22,000 per household (+\$30,900 or +140%). Further, Weston's debt and unfunded liabilities are over twice as large as our total annual operating budget, compared with neighboring comparable towns averaging debt and unfunded liabilities at 125% of their operating budgets.

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Weston's Debt & Unfunded Liabilities Higher than Comparable Towns
Total Outstanding per Household (\$000 FY17)



We would like to acknowledge the efforts of the various Town Boards and Committees as well as the Department Managers for their work on the fiscal year 2020 budget. We appreciate the time and effort spent by the School Committee and Administration sharing information and answering questions. Lastly, we would like to thank the Town Manager and Finance Department for their tremendous level of support, invaluable insights and passion for town government.